



ENERGY CORPORATION

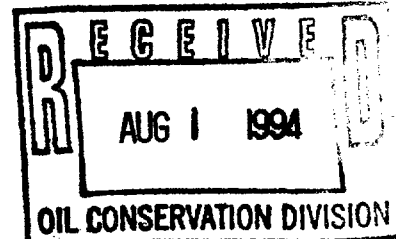
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: 405/235-3611
FAX 405/552-4550

July 29, 1994

Mallon Oil Company
999 18th Street, Suite 1700
Denver, Colorado 80202

Attention: Randy Stallcup



Re: Mescalero Ridge Area
Lea County, New Mexico

Gentlemen:

Devon Energy Corporation (Nevada), ("Devon") is in receipt of Mallon Oil Company's ("Mallon") numerous well proposals and corresponding force pooling applications covering various drilling and spacing units located in Sections 27 and 34-T19S-R34E, Lea County, New Mexico.

In accordance with our telephone conversation of this date, Devon agrees to farmout to Mallon all of its leasehold interest for the drilling of the following wells:

- Mallon "34" Federal No. 1 located in the NW/4 NW/4 of Section 34-T19S-R34E. *Case 11063*
- Mallon "34" Federal No. 2 located in the NE/4 NE/4 of Section 34-T19S-R34E. *Case 11061*
- Mallon "34" Federal No. 3 located in the NE/4 SE/4 of Section 34-T19S-R34E. *Case 11062*

The general terms of our Farmout Agreement are as follows:

1. On or before August 15, 1994, Mallon, as operator, shall commence the drilling of the Mallon "34" Federal No. 1 referenced above. Said test well shall be drilled to a depth sufficient to test the Delaware formation expected to require drilling to a depth of 6,500'.
2. On a "produce to earn" basis Mallon shall earn an assignment of 100% of Devon's leasehold interest in the drilling and spacing unit assigned to the well, limited in depth from the surface to the total depth drilled.
3. On a well by well basis Devon shall reserve an overriding royalty interest as to the earned interest equal to the difference between existing lease burdens and 25%. Upon payout, Devon shall have the option to convert its reserved overriding royalty interest to a proportionately reduced 25% working interest.
4. Mallon shall have the option but not the obligation to drill the Mallon "34" Federal No. 2, and the Mallon "34" Federal No. 3 under the same terms and conditions as set forth under items 1-3 above, with no more than 30 days elapsing from rig release of one well and commencement of the next well.

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5. As to subsequent wells proposed offsetting the above three initial wells, Devon agrees to elect to join or farmout (under the same terms and conditions as set forth under items 1-3 above) within a mutually acceptable time frame.

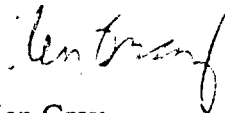
6. The general terms and conditions of this letter agreement shall be subject to the execution of a formal Farmout Agreement.

7. Mallon agrees to dismiss all currently pending force pooling actions naming Devon as an affected party in Sections 27 and 34-T19S-R34E, Lea County, New Mexico.

If the above general terms accurately describe our agreement, please sign and return one copy of this letter to the undersigned no later than 5:00 p.m., Monday, August 1, 1994.

Yours very truly,

DEVON ENERGY CORPORATION (NEVADA)



Ken Gray
District Landman

KG:da
mallon.let

Agreed to and Accepted this _____ day of _____, 1994.

Mallon Oil Company

By: _____

Name: _____

Title: _____

cc: Mr. W. Thomas Kellahin
Kellahin and Kellahin
El Patio Building
117 North Guadalupe
Santa Fe, NM 87504

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
310 Old Santa Fe Trail, Room 219
Santa Fe, NM 87501